

**STATE OF CALIFORNIA  
DEPARTMENT OF INSURANCE  
45 Fremont Street, 23<sup>rd</sup> Floor  
San Francisco, California 94105**

**INITIAL STATEMENT OF REASONS**

**INVESTMENT CONSULTANTS PERFORMING REVIEW OF DERIVATIVE  
TRANSACTIONS AND RELATED REVIEWS**

**RH05047172**

**May 19, 2006**

**INTRODUCTION:**

California Insurance Commissioner John Garamendi proposes the adoption of California Code of Regulations (“CCR”) Title 10, Chapter 5, Subchapter 6.5, Article 1, Section 2690.90 (Purpose); 2690.91 (Definitions); 2690.92 (Disclosure); 2690.93 (Confidentiality); 2690.94 (Conflict of Interest and Disclosure of Affiliation Form).

**DESCRIPTION OF THE ISSUE:**

The Commissioner believes that prior to appointing an Investment Consultant to examine domestic insurers’ derivative transaction, the Commissioner should be fully informed as to actual or potential conflicts of interest between a particular Investment Consultant and a particular insurer.

**SPECIFIC PURPOSE AND REASONABLE NECESSITY FOR THE PROPOSED  
REGULATIONS:**

Section 2690.90. PURPOSE. This section summarizes Insurance Code section 1211 wherein domestic insurers are authorized to engage in certain derivative transactions and wherein the Commissioner is directed to issue regulations establishing requirements regarding the disclosure of affiliations and conflicts of interest between an insurer and the person(s) assigned to perform an examination of the insurer’s derivative transactions.

Section 2690.91. DEFINITIONS. This section contains definitions of the terms used in the proposed regulations to minimize any uncertainty regarding the information requested in the Conflicts of Interest and Disclosure of Affiliation Form.

Section 2690.92. DISCLOSURE. This section requires completion of the Conflicts of Interest and Disclosure of Affiliation Form as part of the process in the Commissioner’s consideration of whom to assign to examine an insurer’s derivative transactions.

Section 2690.93. CONFIDENTIALITY. This section deems that the completed Conflicts of Interest and Disclosure of Affiliations Form is confidential pursuant to Insurance Code section 735.5(c). The Commissioner believes that keeping the information confidential will encourage full disclosure.

Section 2690.94. Conflicts of Interest and Disclosure of Affiliations Form. This form requests information from the Investment Consultant which the Commissioner believes is necessary in order

for the Commissioner to be fully informed in his consideration of whom to assign to a particular derivative transaction examination.

**SPECIFIC TECHNOLOGIES OR EQUIPMENT:**

Adoption of these regulations would not mandate the use of specific technologies or equipment.

**IDENTIFICATION OF STUDIES:**

There are no technical, theoretical, or empirical studies, or similar documents relied upon in proposing the adoption of these regulations.

The Commissioner has relied upon the Fair Political Practices Commission regulations in developing some of the proposed regulations.

**REASONABLE ALTERNATIVES TO THE PROPOSED REGULATIONS; IMPACT ON SMALL BUSINESSES:**

The Commissioner has not identified any reasonable alternatives to the proposed regulations.

The Commissioner believes there will be negligible impact on small business in that the Conflict of Interest and Disclosure of Affiliation Form will take some small amount of time to complete.

**PRENOTICE DISCUSSION:**

The Commissioner did not conduct prenotice discussions because the proposed regulations do not involve complex proposals or a large number of proposals.